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EXECUTIVE COMMITTEE OF THE
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UNHCR ANNUAL PROGRAMME BUDGET:

2002

ADDENDUM 1 - REPORT OF THE ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY QUESTIONS

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I. GENERAL

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations High Commissioner for Refugees, entitled "UNHCR Annual Programme Budget 2002" (A/AC.96/950). During its consideration of these matters, the Committee met with the High Commissioner and his representatives who provided additional information.

2. The Advisory Committee commends the High Commissioner for the comprehensive review that he has undertaken "to give a more strategic orientation to the Office... and to find means to address the ongoing financial difficulties that confront the Office." The broad outline of the review is set out in para. 4 of the programme budget document.

Presentation

3. This is discussed in paras 4 to 9 of Annex 4 to document A/AC.96/950. On the basis of recommendations of the Advisory Committee and decisions of the Executive Committee the format of the budget document has been made more concise and manageable. The Committee welcomes the changes made so far and agrees with the stress made by the Executive Committee that the document must provide a sound base for budgetary approval. In the view of the Advisory Committee, this criterion is yet to be fully realized.

4. The above view of the Executive Committee should be accommodated within the size of the present document by improving the quality of the information presented, by avoiding repetition and excessive description of functions of organizational units, by dwelling more on planned programmes and expected results and by ensuring that narratives at least deal primarily with justifying proposed resources whether in terms of objectives, inputs or outputs and expected results.

5. The Advisory Committee stresses that an improved presentation of the proposed Annual Programme Budget should result in less voluminous and more focused narratives. The Committee, therefore, does not expect the present size of the document to be increased. In this connection, the Committee welcomes increased use of the UNHCR Website for posting detailed information on country programmes and on other activities of the Office.

Budget structure and guidelines on priority setting

6. These issues are dealt with in Annexes 5 and 6 of document A/AC.96/950. The Advisory Committee exchanged views with representatives of the High Commissioner on these subjects. These two annexes deal with factors to be taken into account in preparing and determining the level of the unified Annual Programme Budget, rather than the structure of the budget *per se*. The Committee points out that what is contained in these annexes should not lead to a restructuring of the budget document. Furthermore the content of the two annexes does not in and of itself ensure that the projected level of commitment will in fact be realized. Nevertheless, the two annexes could provide internal guidelines for, inter alia, priority setting and help to establish a more

focused and achievable annual programme within the framework of a sound and predictable resource base.

7. In this connection, the Advisory Committee notes from the guidelines on priority setting for core and non-core activities that "some characteristics of core activities also apply to non-core, while others clearly do not." Both would involve "a strategic and a situation-specific element of choice" (A/AC.96/950, Annex 5, Action 1, para. 3.1). While there are some possible internal uses for these distinctions, the Committee cautions against introducing yet another set of elements into the presentation of the UNHCR budget since this might cause endless discussions and arbitrary, subjective decisions.

8. Under the circumstances, the Advisory Committee does not expect and would strongly discourage any attempt to prepare for approval by the Executive Committee an annual programme and budget which would contain descriptions and be structured on the basis of core and non-core activities and programmes. Furthermore, the Committee would not expect changes in the financial rules of UNHCR until a more thorough evaluation and review of the implications of the recent move to a unified Annual Programme Budget have taken place. This should be done after more experience has been gained with the recent changes. Accordingly, the Committee recommends that the Executive Committee take note of Annexes 5 and 6 to document A/AC.96/950, on the understanding that the High Commissioner will continue to prepare a unified Annual Programme Budget and supplementary programmes thereto, on the basis of the decisions already taken by the Executive Committee in the light of the recommendations of the Advisory Committee.

Annual and supplementary programmes

9. The Advisory Committee welcomes the information in Annex 4 to the budget report on the experience with the unified Annual Programme Budget; this information was prepared at the request of the Committee. The overall conclusion of the Committee is that the advantages of a unified annual presentation outweigh the disadvantages. The Committee shares the expectation of the High Commissioner that the donor community would use the Annual Programme Budget as a tool to determine what is expected by way of resources in the subsequent financial period and that full funding of the annual programme would go a long way to assure a more orderly and efficient management of the operations of the Office.

10. The Advisory Committee stresses once again that the unified Annual Programme Budget of UNHCR serves as a tool to inform the donor community of the likely total resource requirement for the next 12 calendar months. The Annual Programme Budget must include all requirements that the High Commissioner can determine to the best of his ability, bearing in mind the criteria and factors he uses and indications available, before the Annual Programme Budget is approved by the Executive Committee. Needs arising after its approval would constitute supplementary activities to the approved Annual Programme Budget. Potential supplementary programmes known at the time of the approval of the Annual Programme Budget but not included in the Annual Programme Budget should be made known to the ACABQ and the Executive Committee.

Earmarking and fund raising for annual and supplementary programmes

11. The Advisory Committee notes the observation in para. 24 of Annex 4 to document A/AC.96/950 that the Annual Programme Budget has in effect "reduced significantly UNHCR's ability to attract donors' interest towards specific programmed activities without encouraging excessive earmarking." The Committee is of the view that the structure of the budget document should not be confused with the funding of the annual programme (see para. 9 above). Annual and supplementary programmes are funded from annual and supplementary appeals. Experience over the years has shown that earmarking will continue to be a feature of the funding of the annual and supplementary programmes. Indeed, as stated in paragraph 19 of annex 4, the 75% earmarking experienced in 2000 was broadly consistent with the patterns of previous years. In the opinion of the Committee, it is therefore doubtful whether the extent of earmarking is dependent on an activity being included or excluded from the annual or supplementary programmes. It is also doubtful whether the Annual Programme Budget diminishes the prospects of receiving additional resources to fund UNHCR activities.

12. The Advisory Committee believes that the phenomenon of earmarking has to be managed through continuous dialogue with the donor community. As pointed out in para. 13 of the Committee's report of 25 September 2000 (A/AC.96/932/Add.1), progress had been achieved with some donors to introduce flexibility in the management of earmarked contributions. The Committee urges the High Commissioner to continue further consultations on this matter.

Trust Funds

13. In para. 22 of Annex 4 the High Commissioner states that the unified budget has not been as responsive as it should be to those donors wishing to provide funds for new additional activities that were not programmed or included in the approved budget, and that this difficulty could be handled through the establishment of trust funds.

14. The Committee is of the view that donors should in no way be discouraged from contributing funds to finance activities of the Office provided that such contribution is in conformity with the statute and the mandate entrusted to the Office of the High Commissioner. The Committee is also of the opinion that all trust funds activities should be reflected in the approved annual programme or in subsequent annual programme budgets if these activities and related funds were initiated and established after the approval of the annual programme. Such reflection would not affect their funding through trust funds. In this connection, the donor community should be strongly encouraged by the High Commissioner to observe, to the maximum extent possible, the priorities he has set in his annual programme for approval by the Executive Committee. Furthermore, the establishment of trust funds to finance either existing activities or initiate new ones should represent a real additional contribution to the Office rather than reflect a reduction of or mere transfer of resources pledged during the annual appeal.

15. In para. 12 of its report on the UNHCR budget for 2000, the Committee indicated that UNHCR expected that about 2.5 per cent of its total income would come from the private sector in 2000 and may continue to increase to some 7-10 per cent of total income within a few years. The Committee was further informed that UNHCR was in the process of defining criteria for the participation of the private sector in its operations. The Advisory Committee notes that the Secretariat has classified four key areas or constituencies dealing with the private sector (see A/AC.96/950, Annex 5, page 122). The Advisory Committee has now been informed that guidelines have been developed to assist its representatives in private sector fund-raising. The Advisory Committee was provided with a copy of these guidelines. The Advisory Committee requests UNHCR to report on the implementation of these guidelines in the next budget presentation.

Resources and expenditures

16. As shown in Table I.1 of document A/AC.96/950, the revised Annual Programme Budget for 2001 amounts to $782.1 million. Taking into account requirements for Supplementary Programmes estimated at $66.1 million, the total revised needs for 2001 amount to $848.2 million (excluding the United Nations regular budget contribution of $19.2 million and the provisions for Junior Professional Officers of $ 7 million). UNHCR programme expenditures for 2000 amounted to $774.8 million, comprising $707.6 million under the Annual Programme Budget and $67.2 million under Supplementary Programmes (excluding $19.6 million under the United Nations regular budget and $7.1 million for Junior Professional Officers).

17. For the year 2002, as indicated in para. 15 and Table I.1 of the report of the High Commissioner, initial projected requirements for the Annual Programme Budget are estimated at $801.7 million, including an Operational Reserve of $72.9 million (set at 10 per cent of programme activities). Taking into account the contribution of $19.9 million for 2002 under the United Nations regular budget and provisions estimated at $7 million for Junior Professional Officers, total requirements in 2002 would amount to $828.6 million.

The Operational Reserve

18. The Advisory Committee notes from para. 16 and Table II.3 of the budget report that, as part of Action 2 (see A/AC.96/950, Annex 5), the level of the operational reserve for 2001 was reduced by some $8.2 million from the level approved by the Executive Committee in October 2000 of $79.3 million to the revised level of $71.1 million, corresponding to 10 per cent of the revised level of programme activities. As at 30 June 2001, $22.6 million had been allocated from the operational reserve, leaving an unallocated balance of $48.5 million.

19. The Advisory Committee notes from para. 3 (xi) of Annex 6, "Proposals for Budget Structure," that a new element would be introduced concerning the use of the operational reserve to fund "non-core activities". The Committee is of the opinion that, in view of the inherent difficulties as referred to in para. 7 above concerning core and non core activities, the UNHCR's financial rules

governing the use of the operational reserve (see A/AC.96/950, Annex 10, extract from document A/AC.96/503/Rev.7) should not be modified at this stage. In the view of the Committee, once the High Commissioner has accepted an activity to be included either in the Annual Programme Budget or in the supplementary programmes, the current financial rules governing the use and operation of the reserve should apply until modified, in the light of experience, as indicated in para. 8 above.

20. In using the operational reserve for any activity, the Advisory Committee is aware that the High Commissioner would, of course, be guided by the internal priorities and guidelines that he has followed from time to time to prepare the annual programme including guidelines to formulate supplementary programmes. In the latter connection, the Committee recalls its recommendations on the issue of supplementary activities and agrees with the proposed guidelines on supplementary activities, as contained in the draft decision (see A/AC.96/950, Annex 9), subject to the Committee's observations concerning the issues of core and non-core activities, as set out in paras 7 and 8 above.

Populations of concern

21. As indicated in paragraph 35 of the document A/AC.96/950, at the end of 2000, the overall population of concern to UNHCR was some 21.8 million persons as compared with figures for 1999 and 1998 of some 22.3 million persons and 21.5 million, respectively. There were some 12.1 million refugees, 0.8 million returned refugees or "returnees", 0.9 million asylum-seekers and about 8.0 million of certain specific groups not coming within the ordinary mandate of UNHCR, including internally displaced persons. Indicative populations of concern to UNHCR, as at 31 December 2000, are shown by region and country in annex 2 to document A/AC.96/950.

22. The Advisory Committee notes that the information provided in Annex 2 to the budget report on refugee caseload is "based mainly on figures provided by governments using their own records and methods of estimation." The Committee is concerned by the finding of the Board of Auditors that the "UNHCR had yet to establish a reliable system of establishing accurate information on the size and characteristics of the refugee population" (A/56/5/Add.5, summary of main findings, item k). The Committee requests that the High Commissioner address this problem and report the results in the context of the next submission of his annual programme budget.

II. THE SUPPORT BUDGET

23. The Support Budget of UNHCR, covering Programme Support (both field and headquarters) and Management and Administration (headquarters) estimates is discussed in Part III of the report.

24. The Committee is of the opinion that in the next annual programme budget presentation most of the narratives in Part III of the report should be reformulated to concentrate on justifying requested resources in the manner indicated in para. 4 above. Paras 118-187, for example, should have concentrated on a thematic justification of and the factors underlying the

request for a revised $248.9 million for 2001 and the proposed initial request for $241.5 million for 2002.

25. As shown in Table I.1 of the document A/AC.96/950, the revised Support Budget for 2001, not including the United Nations regular budget of $19.2 million, amounts to $229.8 million, comprising $154.5 million for the field and $75.3 million for headquarters ($35.8 million for Programme Support and $39.5 million for Management and Administration).

26. For 2002, the proposed initial Support Budget, not including the United Nations regular budget of $19.9 million, amounts to $221.6 million, comprising $150.2 million for the field and $71.4 million for headquarters ($34.1 million for programme support and $37.3 million for Management and Administration). Table III.1 of the budget report provides a breakdown of the support budget estimates for 2001 and 2002, by organizational unit, including the United Nations regular budget. Table III.2 shows the Support Budget by object of expenditure for 2001 and 2002, including the amount under the United Nations regular budget. The Advisory Committee notes that for 2002 the initial total proposed support budget of $241.5 million (including $19.9.million under the United Nations regular budget would amount to approximately 29 per cent of the total projected requirements for 2002 of $828.6 million.

27. The role of the UN regular budget is discussed in paras 105-108 and in paras 25-28 of Annex 4 to document A/AC.96/950. In para. 27 of Annex 4, the High Commissioner indicates that for 2002-2003 the UN regular budget would contribute $41.2 million and that he is disappointed with the limited scope of this proposal. In the view of the High Commissioner the regular budget should provide full funding of the administrative expenditure of the Office as foreseen by the statute. In this connection, the Advisory Committee would like to draw the attention of the Executive Committee to the observations contained in paragraph 23.16 of Section 23 of the report of the Secretary General on the proposed programme budget of the United Nations for 2002-2003 (A/56/6).

28. The Advisory Committee's comments on the proposals contained in section 23 of document A/56/6 are contained in the Committee's first report on the proposed programme budget for 2002-2003 (A/56/7, paras. VI.23 to VI.27). As indicated in para. VI.25 of document A/56/7, the Committee noted that a review has been conducted to determine the best method of providing United Nations regular budget assistance to UNHCR. As a result, proposals have been made to strengthen the regular budget component, while at the same time the bulk of resources would be provided as a lump-sum grant in place of established posts. The Committee noted that there has been a slight increase in the contribution under the regular budget and that flexibility has been introduced in the use of these resources. The grant would be subject to adjustment for currency and inflation, and the arrangements would be subject to review after three biennia. The Committee will continue to address the contribution of the regular budget on the basis of the outcome of consultations between the High Commissioner and the Secretary General of the United Nations, taking into account the overall budget policy as set by the General Assembly of the United Nations.

29. Table I.3 of the budget report shows overall post requirements for 2001 and 2002, including posts funded from the United Nations regular budget. As at 1 January 2001 post requirements for 2001 total 4,827 (679 for headquarters, 20 for global programmes and 4,128 for the field). For 2002, projected requirements, as at 1 January 2002, are 4,400 posts (685 for headquarters, 36 for global programmes and 3,679 for the field), reflecting a net decrease of 427 posts. The Committee notes from table I.3 that in addition to the staff mentioned above, UNHCR has 240 United Nations Volunteers in its field operations. The Committee encourages the use of UNVs whenever possible.

30. As indicated in para. 181 and Table II.7 of the budget report, the Support Budget estimates for 2002 include a provision of $5.3 million for special staff costs used for covering the costs of staff between postings as well as of staff termination liabilities. The Advisory Committee notes that no special provision has been made in the 2002 budget for costs associated with termination liabilities for staff separating from UNHCR. As indicated in para. 22 of document A/AC.96/950, a reduction of 760 posts is envisaged during 2001 and up to mid-2002. However, as indicated in the same paragraph these reductions have already been offset by additions in some key areas; it is expected that the net reduction will exceed ten per cent of the January 2001 post levels. The Committee notes that in 2001 these liabilities would be covered from the annual savings from exchange gains on country programmes, resulting from the strengthening of the dollar when appropriations for country programmes are in excess of the local currency budgets. A $20 million limit to be funded from the e savings has been placed on this exercise for 2001-2002.

31. The Advisory Committee requests that in the next budget presentation, the High Commissioner present results of his review of the question of termination benefits raised in paragraph 182 of the budget report and in the report of the Board of Auditors on the accounts of UNHCR for the year ended 31 December 2000 (see A/AC/96/494, paras 46-51).

32. Staff security and safety are discussed in paras 147 to 154, and provisional estimates for UNHCR security costs are shown in Table III.7. The Advisory Committee notes that total costs are estimated at $13.9 million and $17.3 million for 2001 and 2002, respectively. These totals include shared costs for UNSECOORD of $1.76 million and $1.4 million for 2001 and 2002, respectively. The Committee understands that the shared costs would be adjusted in the light of the agreement to be finalized between the United Nations and its partners in the UN system on cost sharing arrangements, as decided upon by the General Assembly in its resolution 55/238 of 23 December 2000 on cost sharing arrangements for inter-organizational security measures. (See also document A/56/6, paras 30.2-30.8). The Committee will revert to this item in the context of its review of the report of the Secretary General.

33. The Advisory Committee is of the opinion that there is considerable room for efficiency and increased productivity in programme support and management activities of the Office. This is borne out by the latest report of the Board of Auditors about which the Committee will submit its observations to the General Assembly. One of the means to ensure the continued support of the donor

community is to assure them that financial resources provided are being spent economically and efficiently.

34. The Advisory Committee is concerned that the level of the support budget may be understated by including support expenditure in project budgets. An example of this is referred to in paragraph 183 of document A/AC.96/950 which involves staff costs that should normally be reflected under administration, management and programme support as contained in part III of the present presentation. Upon enquiry, the Committee was informed that the number of staff charged to project budget totals some 970 and that the process to regularize this situation would be accomplished by 2004. The Committee requests that a review be made of non-staff costs to ascertain whether a similar exercise is warranted.

35. In the light of the above comments, the Advisory Committee stresses that there is a need for the Office to examine more rigorously the management of administration and support operations of the Office, with a view to introducing further efficiencies and productivity thereby reducing the ratio of support and management expenditure to programme expenditure.

Information technology

36. The Committee is very concerned about the inability of the Office to implement all the information system projects of the Office effectively and efficiently in spite of numerous comments by the Committee and the Board of Auditors. Information technology projects are commented upon in paragraphs 160 to 172 of the budget report. In the opinion of the Advisory Committee, the presentation on information technology lacks clarity and transparency as to performance on previous undertakings and planned future activities including the time frame for the conclusion of information technology projects. In this connection the Advisory Committee recalls that the revised estimate for information technology was $28.6 million in 2000 and that the initial projection for 2001 was $29.6 million. UNHCR budget documents contain projects such as the ISP that appear to be repeated year after year without giving a time frame for their conclusion. The Board of Auditors has commented on unrealistic planning and inadequate implementation of the Operational Management System Project (A/56/5/Add.5, para. 60). The Committee is also very concerned by the fact tha some of the projects have been suspended (A/AC.96/950, para. 162). In this regard, the Committee is not persuaded that the postponement will not affect costs (see para. 165 of A/AC.96/950). This development indicates serious weakness in the capacity of the Office to identify needs, to formulate and design projects and to implement them on the basis of firm time lines, a fact referred to previously by the Committee (see, for example, A/AC.96/900/Add.3, para. 26).